

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;  
Mark Acton, Vice Chairman;  
Ruth Y. Goldway;  
Tony Hammond; and  
Nanci E. Langley

Competitive Product Prices  
Priority Mail Express  
Priority Mail Express Contract 26

Docket No. MC2015-77

Competitive Product Prices  
Priority Mail Express Contract 26 (MC2015-77)  
Negotiated Service Agreement

Docket No. CP2015-121

PUBLIC REPRESENTATIVE COMMENTS  
ON POSTAL SERVICE REQUEST TO ADD  
PRIORITY MAIL EXPRESS CONTRACT 26 TO THE COMPETITIVE PRODUCT LIST

(August 12, 2015)

The Public Representative hereby provides comments pursuant to Order No. 2634.<sup>1</sup> In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Request to add Priority Mail Express Contract 26 to the competitive product list.<sup>2</sup> The Postal Service's Request includes a Statement of Supporting Justification, a certification of compliance with 39 U.S.C. § 3633(a), and a

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<sup>1</sup> PRC Order No. 2634, Notice and Order Concerning the Addition of Priority Mail Express Contract 26 to the Competitive Product List and Request for Supplemental Information, August 3, 2015.

<sup>2</sup> Request of the United States Postal Service to Add Priority Mail Express Contract 26 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, July 31, 2015 (Request).

copy of Governor's Decision No. 11-6. The Postal Service also filed (under seal) a contract related to the proposed new product, and supporting financial data.

According to the Postal Service, Priority Mail Express Contract 26 is a competitive product "not of general applicability" within the meaning of 39 U.S.C. § 3632(b)(3). *Request* at 1. The Postal Service also maintains that the prices and classification underlying the instant contract are supported by Governors' Decision No. 11-6.<sup>3</sup> The Postal Service further asserts that the Statement of Supporting Justification provides support for adding Priority Mail Express to the competitive product list and the compliance of the contract with 39 U.S.C. § 3633(a). *Attachment A* at 1.

The contract's effective date will be set the day following the date on which the Commission issues all necessary regulatory approval. *Attachment B* at 1. The contract is to expire three (3) years from the effective date, unless (1) terminated by either Party within 30 days' notice with applicable restrictions, (2) renewed by mutual agreement in writing, (3) superseded by a subsequent Agreement between the Parties, (4) ordered by the Commission or a court, or (5) required to comply with subsequently enacted legislation. *Id.* at 3.<sup>4</sup>

## COMMENTS

Pursuant to 39 U.S.C. § 3652, the Postal Service requests that Priority Mail Express Contract 26 be added to the competitive product list. 39 U.S.C. § 3652 requires the Commission to consider whether "the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products." 39 U.S.C. § 3652(b)(1). Products over which the Postal Service exercises such power are categorized as market dominant while all others are categorized as competitive.

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<sup>3</sup> Decision of the Governors of the United States Postal Service on Establishment of Domestic Competitive Agreements, Outbound International Competitive Agreements, Inbound International Competitive Agreements, and Other Non-Published Competitive Rates, March 22, 2011 (Governors' Decision No. 11-6).

<sup>4</sup> At the conclusion of this Contract term both Parties agree if preparation of a successor contract is active, the Contract will be extended for up to two (2) ninety (90) day periods with official notification to the Commission within at least seven (7) days of the Contract expiring. (*Attachment B* at 4)

The Postal Service makes a number of assertions that address the considerations of section 3652(b)(1). *Request* at 2. These assertions appear reasonable.

*Requirements of 39 U.S.C. § 3633.* Pursuant to 39 U.S.C. § 3633(a), the Postal Service's competitive prices must not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and, ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service. Based upon a review of the financial model filed under seal with the Postal Service's Request, it appears the negotiated prices in the contract should generate sufficient revenues to cover costs during the first year of the agreement.

## CONCLUSION

The Public Representative has reviewed the instant contract, the Statement of Supporting Justification, and the financial data and model filed under seal that accompanies the Postal Service's Request. Based upon that review, the Public Representative concludes that Priority Mail Express Contract 26 should be categorized as a competitive product and added to the competitive product list.

The contract is expected to remain in effect for a period of three years. The Postal Service provides no data to demonstrate that the contract will comply with the requirements of 39 U.S.C. § 3633(a) during the second and third years of the contract. This concern is largely mitigated by the fact that the terms of the contract provide a formula for an annual adjustment in the negotiated rates that should permit revenues to cover costs during years 2 and 3.<sup>5</sup> The Commission also has an opportunity to conduct an annual compliance review in its Annual Compliance Determination. Nevertheless, the Public Representative asks the Commission to examine this aspect of the contract's analysis. The accuracy of this analysis is partially dependent on the accuracy of the cost inflation factor. The Commission should note that forecasting is not an exact science. As such, the Commission should, during its Annual Compliance

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<sup>5</sup> See Appendix B of Request of the United States Postal Service to Add Priority Mail Express Contract 26 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data. July 31, 2015. Page 2.

Determination, record the accuracy of such factors and its corresponding effect on the cost model.

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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